

RICE STRAW TAX CREDIT PACKAGE

2007 Tax Year

**State of California
California Department of Food and Agriculture**

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Introduction to the Rice Straw Tax Credit Program

Program Creation The Rice Straw Tax Credit Program was established by SB 38 (Lockyer, Ch 954, 1996). This program provides a tax credit for end-users of rice straw as an alternative to open-field burning of straw. The ceiling placed on this tax credit will only address approximately 1% to 2% of the available straw, but may provide enough incentive for private concerns to develop economical uses of rice straw. Eligible purchases of rice straw can be made through 2007. The program is in effect until December 1, 2008.

Who Will Benefit? The rice straw credit will benefit end-users of rice straw involved in biomass energy, alternative construction materials or pulp production, erosion prevention; animal feed or bedding, compost production, or any use other than open field burning. Rice straw utilization may expand rural employment and provide a possibly lower cost, renewable fiber or energy product. Rice growers will benefit by having straw removal as an available straw management tool. Air quality will benefit as the need to burn rice straw in the field is further reduced. Currently, there are approximately 500,000 acres of rice being produced in California; the vast majority in the Sacramento Valley Air Basin. Rice straw production averages about 2 to 3.5 tons per acre.

Program Administration: The California Department of Food and Agriculture administers the program and issues certificates for tax credit. The taxpayer must purchase California rice straw in the same tax year the credit is to be taken.

The aggregate amount of the tax credits granted to all taxpayers cannot exceed \$400,000 per calendar year. Certificates are issued on a “*first come, first serve*” basis to reflect the chronological order that “*valid*” requests for credits are received by the Department.

The allowed credit is against the “*net tax*” in an amount equal to fifteen dollars per each ton of rice straw. If the credit exceeds the net tax in the tax year, the excess may be carried over into succeeding years for the next 10 taxable years, or until the credit has been exhausted, whichever comes first.

No deduction can be claimed for the purchase of rice straw for which a tax credit has been claimed under this program. No credit can be claimed for the purchase of rice straw for which a tax credit has otherwise already been claimed.

The Approval Process

SB 38 made additions to the State Revenue and Taxation Code. These can be found in Section 17052.10. This section outlines the requirements which the applicants must meet and which the Department must meet.

Eligibility:

A proposed applicant **will qualify** for the tax credit only if:

- the taxpayer is the “*end user*” of the rice straw. For purposes of this section “*end user*” means anyone who uses the rice straw for processing, generation of energy, manufacturing, export, prevention of erosion, or for any other purpose, exclusive of open burning, that consumes the rice straw. “*Straw*” as defined in the Health and Safety code means “*the dry stems of cereal grains left after the seed heads have been removed.*”

Under the law, a proposed applicant **will NOT** qualify and a tax credit **CANNOT be allowed** if:

- the **taxpayer is related**, within the meaning of Section 267 or 318 of the Internal Revenue Code, **to any person who grew the rice straw within California.**

A proposed applicant will not be issued a certificate if the applicant does not abide by these guidelines or fails to provide the information deemed necessary by the Department and Section 17052.10.

**Applicant
Responsibilities:**

All applicants must submit an application on the form designated. Applicants must provide the Department with the documents required under this program, and as outlined on the application. Applicants must retain, for their records, a copy of the certificates issued by the Department of Food and Agriculture. They must provide a copy of the certificate to the Franchise Tax Board, upon request.

Application Procedures

Making Application:

Certificates will be issued on a “*first come, first serve*” basis. The criteria which establishes this is the chronological order of receipt at the Department of a valid request. The process is as follows:

Step 1: an applicant determines if they meet the eligibility criteria outlined in these guidelines. Applicants are required to affirm this on their applications. If eligibility requirements are met, they move to Step 2.

Step 2: Applicant submits application along with documents verifying the purchase of the rice straw. Documents must verify date of purchase and quantity (tons) purchased.

Step 3: CDFA receives the application and reviews it for compliance. When it is determined that the application is valid, CDFA establishes its position in the chronological “*first come, first serve*” system. If credits are available for distribution, CDFA will issue a certificate. If credits are not available, CDFA will establish a waiting list based on the chronology. The applicants will become reachable if it is determined that an applicant who was previously issued a certificate subsequently failed to comply with the requirements of the program. In this manner, all credits can be made available to potential users.

Applicant Failure:

If the taxpayer fails to comply with the requirements of these guidelines, which outline the requirements of Section 17052.10 of the Revenue and Taxation Code, a credit will not be allowed or will be canceled if previously issued.

Appeal Process:

If a taxpayer believes they have been denied a tax credit incorrectly, they may appeal this decision, in writing, to the California Department of Food and Agriculture’s Rice Straw Tax Credit Program Administrator. A final determination will be made by the Secretary of the California Department of Food and Agriculture, or the designated representative of the Secretary.

Contact Point:

Questions regarding this program can be directed to:
California Department of Food and Agriculture
Rice Straw Tax Credit Program
1220 N Street, Room 444
Sacramento, CA 95814
(916) 657-4956

CDFA Responsibilities

CDFA's Responsibilities:

The California Department of Food and Agriculture will do all of the following:

- Certify that the taxpayer has purchased California grown rice straw during the taxable year. CDFA is not certifying when the rice straw will actually be used, only when it was purchased.
- Issue certificates in an aggregate amount not to exceed \$400,000 per year on a *"first come, first serve"* basis to reflect the chronological order that *"valid"* requests for credits are received by the Department.
- Provide annual listings to Franchise Tax Board (FTB), in an agreed upon format, of qualified taxpayers who were issued certificates and the amount of rice straw purchased by each.
- Provide the taxpayer with a copy of the certificate.

Provide the appropriate taxpayer identification numbers to FTB.

- Report to the Legislature, on or before June 1, immediately following each year credits are available, an informational report including **ALL** of the following: numbers of certificates requested and issued, type of business receiving certificates, general methods used to process rice straw, and recommendations on how credits can be used to maximize long term use of rice straw.

SUNSET:

The program is in effect until December 1, 2008.

Incomplete applications will be returned.

RICE STRAW TAX CREDIT APPLICATION	
Name (Last, First, Middle): Business:	Taxpayer's Identification Number (for partnerships, include number for each partner)
Address:	Phone Number: FAX Number: E-mail:
ELIGIBILITY DETERMINATION: I/we are the "end user" of the rice straw. "End user" means anyone who uses the rice straw for processing, energy production, manufacturing, export, erosion control, or for any other purpose, exclusive of open burning, that consumes the rice straw. I/we are not related, within the meaning of Section 267 or 318 of the Internal Revenue Code, to any person who grew the rice straw within California. I/we have purchased the California grown rice straw in taxable year _____. I/we have attached proof of purchase to this application. The number of tons purchased is: _____.	
I declare under the penalty of perjury under the laws of the State of California, that the foregoing is true and correct.	
_____ Signature	_____ Date
_____ Signature	_____ Date
_____ City, State	
_____ City, State	
Type of Business: _____	
End-uses of rice straw. Specify use/product and number of tons utilized: Energy production: _____ Manufacturing: _____ Erosion control: _____ Animal feed: _____ Animal bedding: _____ Construction: _____ Compost/Soil amendment: _____ Other: _____	